

163858

OST-02-11590-54

April 11, 2002

Docket Operations and Media Management Division
SVC-124
Room PL-401
Department of Transportation
400 7th Street SW
Washington, D.C. 20590

DEPT. OF TRANSPORTATION
DOCKETS

02 APR 19 PM 1:38

Docket:

The Des Moines International Airport is pleased to present an original and five (5) copies of our Small Community Air Service Development Pilot Program proposal for your review and disposition. Our proposal has been developed in cooperation with a recognized low-fare airline and represents a proposed collaborative public-private partnership designed to satisfy the unreasonably high airfare problems that impede the economic and social growth of central Iowa.

The public sector participants, who include the U.S. Department of Transportation, will provide \$1,000,000 in financing for the revenue guarantee element of our program, \$25,000 in assistance with service promotion, and \$100,000 in reductions in airport operating costs during year one. Private sector businesses will provide a minimum of \$1,000,000 in pre-paid travel commitments during year one.

Our program has been designed to help mitigate the business risk a low fare airline faces during the critical start up phase. Our program also mitigates the risk for the US DOT by incorporating a significant pre-paid ticket element - if the low fare airline meets its performance forecasts the revenue guarantee would not be needed and the Small Community Air Service development funds would not be expended.

On behalf of the Des Moines International Airport Board I thank you for considering our proposal. Please contact me at 515-256-5100 if you have any questions or comments.

I look forward to working with you to solve the high airfare problem in central Iowa.

Sincerely,


William F. Flannery
Aviation Director

cc: Honorable Senator Charles Grassley
Honorable Senator Tom Harkin
Honorable Congressman Greg Ganske
Honorable Congressman Leonard Boswell
Honorable Governor Tom Vilsack
Honorable Supervisor Angela Connolly
Honorable Mayor Preston Daniels
Suku Radia, Greater Des Moines Partnership
Mike Blouin, Greater Des Moines Partnership



DES MOINES INTERNATIONAL AIRPORT
DEPARTMENT OF AVIATION, ROOM 201
5800 FLEUR DRIVE
DES MOINES, IOWA 50321-2854
(515) 256-5100

ALL-AMERICA CITY 1949, 1976, 1981



Proposal under the Small
Community Air Service
Development
Pilot Program
Docket OST-2002-11590

Des Moines International Airport

Table of Contents

Executive Summary

Section I Situation Summary

Section II: Community & Airport Contact Information

Section III: Overview of Des Moines' High Air Care Situation & Leakage

Section IV: Summary of Past Air Service Development Efforts

Section V Des Moines Action Plan & Partnership

Section VI: Use of Grant Funds & Program Administration

Appendix Airport Budgets

Executive Summary

- o The Des Moines International Airport (DSM) is a small-hub airport that serves a large portion of the state of Iowa. Despite a determined effort over the years to introduce low-fare airline competition, DSM has fares which are among the highest in the country.
- o Due to the high fares in the market, roughly one-third of the travelers from the airport's catchment area are driving to other airports in the region for lower fares; specifically the travelers are leaking to Kansas City and Omaha, which are served by multiple low-fare carriers.
- o This is a problem with a straightforward solution. Through the Small Community Air Service Development Program, the airport and community can gain access to funding which will allow a local public-private partnership to recruit and sustain a major, low-fare airline.
- o With a low-fare carrier in place, and protected from predatory competition, average fares from DSM will drop. Central Iowa travelers will have no reason to "leak" to other airports, as the choice of carriers and non-stop destinations is very good for a market of this size. The airport will be able to fulfill its potential as a transportation hub and economic generator for the community.
- o Energized by the new AIR 21 program, Des Moines is now preparing a plan to commit to more than match the \$500,000 being requested, and has outlined a multi-part program for improving Central Iowa's air service.

Des Moines's Situation Summary

Des Moines is the political, cultural and economic capitol of the State of Iowa. The Des Moines International Airport (DSM) serves a large portion of the central and southern regions of the state. Arguably, Des Moines is relatively well served by several major airline brands, with service to a number of major network hubs. However, as a small hub airport, DSM suffers from high fares, due to the lack of a low-fare airline in the market. The result of these high fares is a significant amount of passenger traffic leakage, primarily to the airports in Omaha and Kansas City. These airports benefit from the presence of multiple low-cost carriers, including Southwest Airlines.

Over the years, Des Moines has made numerous efforts to attract and retain low fare airline service. Vanguard Airlines came to the market in 1995, with service initially to Minneapolis and Kansas City. Fares came down drastically in these markets. However, the fierce competition for traffic to Minneapolis caused them to drop this market later in the year, and replace it with service to Chicago's Midway Airport. This service was hugely successful at the outset. Traffic to Chicago, already Des Moines' top Origin-Destination market, soared by fifty percent. Fares were dramatically lowered. Again, the incumbent carriers fiercely defended their turf. Seats were added by the substitution of much larger aircraft on the route. All of Vanguard's fares were matched. Travel agency loyalties were tested. In the end, Vanguard could not survive the cutthroat competition. They left the market in 1997.

In 1996, the original AirTran Airways entered the Des Moines market. They served the Orlando market with daily service. This service was briefly successful. However, when AirTran merged with ValuJet, the corporate philosophy changed. The new carrier decided to de-emphasize Orlando service to support the Atlanta hub operation. AirTran left the market.

Faced with rising fares again, and little hope on the horizon, local businesses in Central Iowa invested in a start-up carrier to be based in Des Moines: AccessAir. This start up carrier promised low fares and jet service to major markets on both the East and West Coasts. After a fitful certification, the airline began service in February of 1999. For roughly nine months, the airline did provide scheduled service to DSM. Fares came down drastically on the routes they flew. However, the airline made any number of strategic and operational mistakes. The operation was unpredictable and unreliable: consumer confidence in the product was extremely low. The airline went into Chapter 11 Bankruptcy proceedings in November of 1999. Although it emerged briefly from Chapter 11 in 2000, and provided limited service to Midway Airport, the comeback bid of AccessAir lasted less than three months. Access was finished.

If Des Moines and Central Iowa are going to enjoy reasonable air fares, we must be successful in recruiting and retaining a meaningful low fare airline. This program will help Des Moines and Central Iowa help themselves.

As a result of the events of September 11, Des Moines's air service is under pressure:

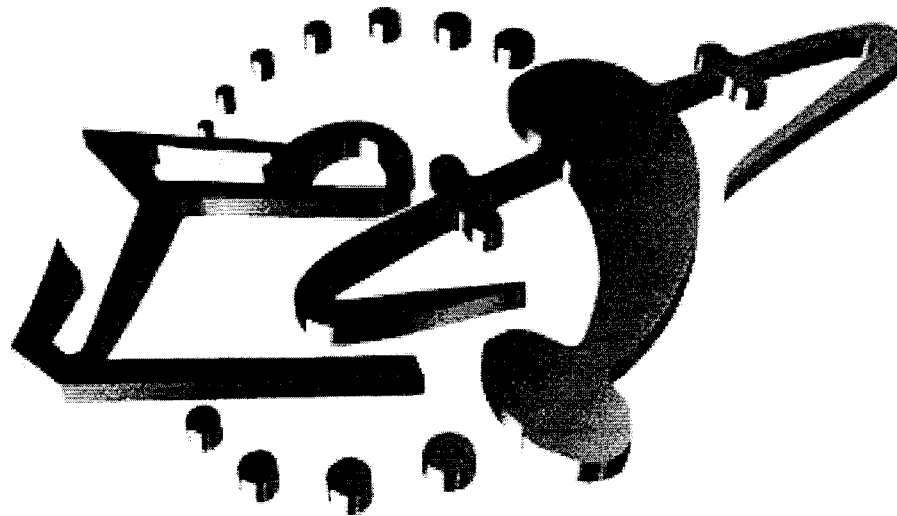
- **United Airlines - service to Denver & O'Hare - reduced by 30%**
- **American Trans Air - Service to Chicago Midway - reduced**
- **January-August passengers were up by 1%: Sep-Dec enplanements were down by 23.2%, and traffic for the full year was off by 6.7%.**

Program Sponsor Contact Information

Program Sponsor

**Des Moines International Airport
Des Moines, Iowa 50266**

**William F. Flannery
Executive Director and Project Sponsor
(515) 256-5100**



Des Moines Air Service Task Force

Ron Barry

Chairman

Des Moines Air Service Task Force
Color Converting
3535 S.W. 56th Street
Des Moines, IA 50321
(515) 487-1714

Steve Champman

President

ITA Group

4800 Westown Pkwy, Suite 300
West Des Moines, IA 50266
(515) 224-3428

Suku Radia

Chair

Greater Des Moines Partnership
700 Locust Street, Suite 100
Des Moines, IA 50309
(515) 284-3603

Steve Zumbach

Attorney-at-Law

666 Walnut

Des Moines, IA 50309
(515) 283-4625

Bill Flannery

Aviation Director

Des Moines International Airport
5800 Fleur Drive, Suite 202
Des Moines, IA 50321
(515) 256-5101

Kay King

Owner

Travel World

5922 Ashworth Road
West Des Moines, IA 50266
(515) 223-7474

John R. Fitzgibbon

Chair

Des Moines International Airport Board
5800 Fleur Drive, Suite 201
Des Moines, IA 50321
(515) 288-2516

Mike Blouin

President & CEO

Greater Des Moines Partnership
700 Locust Street, Suite 100
Des Moines, IA 50309
(515) 286-4950

Al Brooks

Purchasing Manager

Iowa State University
3616 Administrative Services Building
Ames, IA 50011
(515) 294-7040

Michael Audino

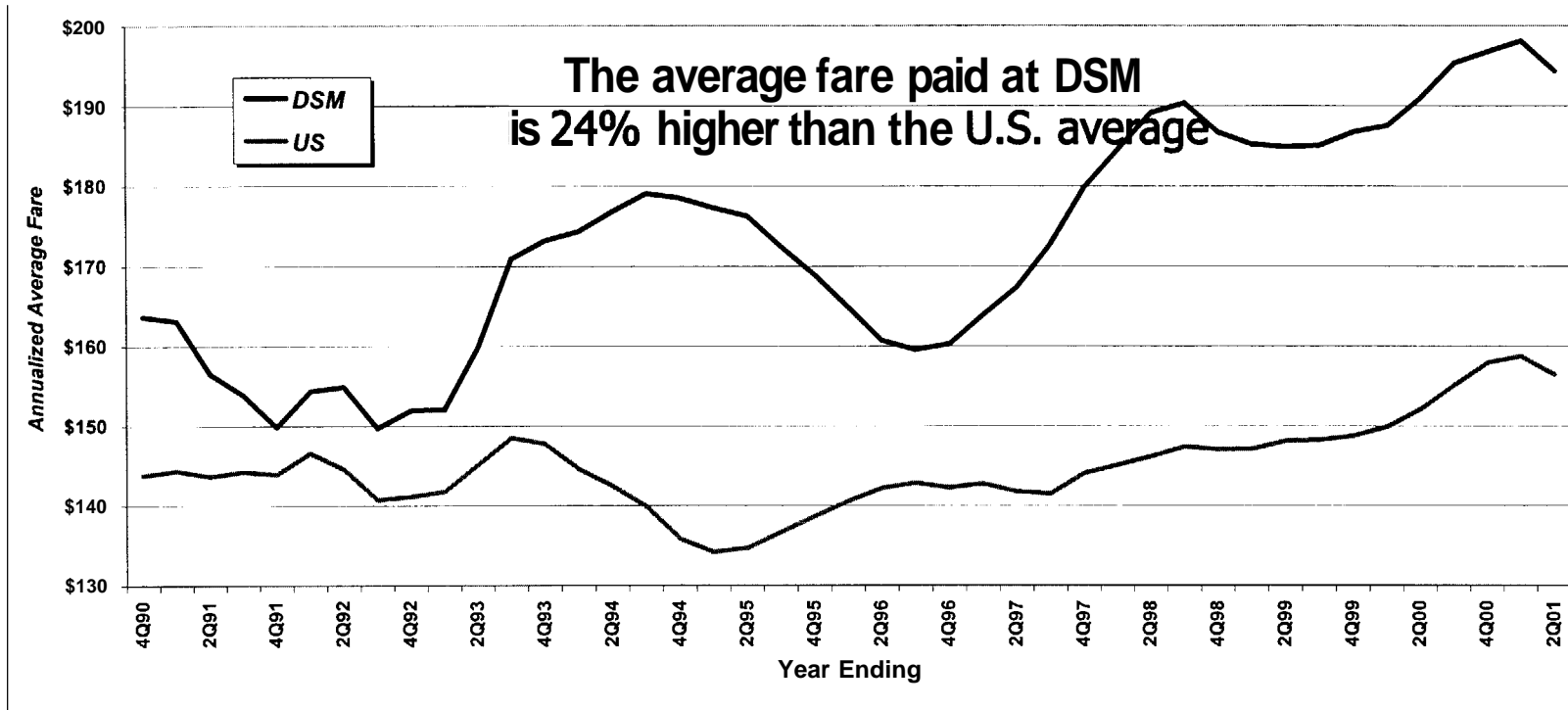
Marketing Consultant

Des Moines International Airport
5800 Fleur Drive, Suite 204
Des Moines, IA 50321
(515) 256-5150

Des Moines's Air Service Objectives

- 1) Bring air fare relief to our community**
- 2) Provide a more balanced competitive mix of carriers**
- 3) Serve our own community and businesses adequately and stop leakage of passengers to other airports**

Objective 1: Bring Air Fare Relief to our Community



Source: D.O.T. 10% Coupon Sample

WE NEED AIR FARE RELIEF!

Objective 1: Bring Air Fare Relief to our Community

Available business fare comparison:			
<u>Metro/Area</u>	<u>Des Moines</u>	<u>Omaha</u>	<u>Kansas City</u>
Atlanta	\$688	\$913	\$167
New York City	\$414	\$459	\$275
Boston area	\$535	\$409	\$445
Chicago	\$177	\$218	\$123
Denver	\$1,141	\$1,592	\$621
L.A area	\$544	\$558	\$215
S.F. Bay area	\$418	\$621	\$235
Seattle	\$1,185	\$737	\$672
Las Vegas	\$713	\$460	\$338

Source: Sidestep Air Fare Search of several sites for 2-day trip, no Saturday night stay for travel 3/4/02 returning 3/06/02

Washington-Baltimore=DCA, IAD, BWI; New York City=EWR, JFK, LGA; Boston Area=BOS, PVD;

LA Area=LAX, SNA, BUR, ONT; SF Bay=SFO, OAK

Our businesses must pay a premium to fly from the local airport !

Leisure fares are also not consistently competitive

Available leisure fare comparison:

<u>Metro/Area</u>	<u>Des Moines</u>	<u>Omaha</u>	<u>Kansas City</u>
Atlanta	\$234	\$289	\$167
Washington-Baltimore	\$225	\$257	\$218
New York City	\$232	\$320	\$218
Chicago	\$208	\$102	\$123
Dallas	\$264	\$270	\$185
Orlando	\$275	\$257	\$255
Denver	\$334	\$315	\$175
L.A. area	\$312	\$257	\$240
S.F. Bay area	\$325	\$258	\$235
Seattle	\$325	\$259	\$256
Las Vegas	\$304	\$257	\$220

Source: Sidestep Air Fare Search of several sites for 7-day trip for travel 3/17/02 returning 3/24/02
 Washington-Baltimore=DCA, IAD, BWI; New York City=EWR, JFK, LGA; Boston Area=BOS, PVD;
 LA Area=LAX, SNA, BUR, ONT; SF Bay=SFO, OAK

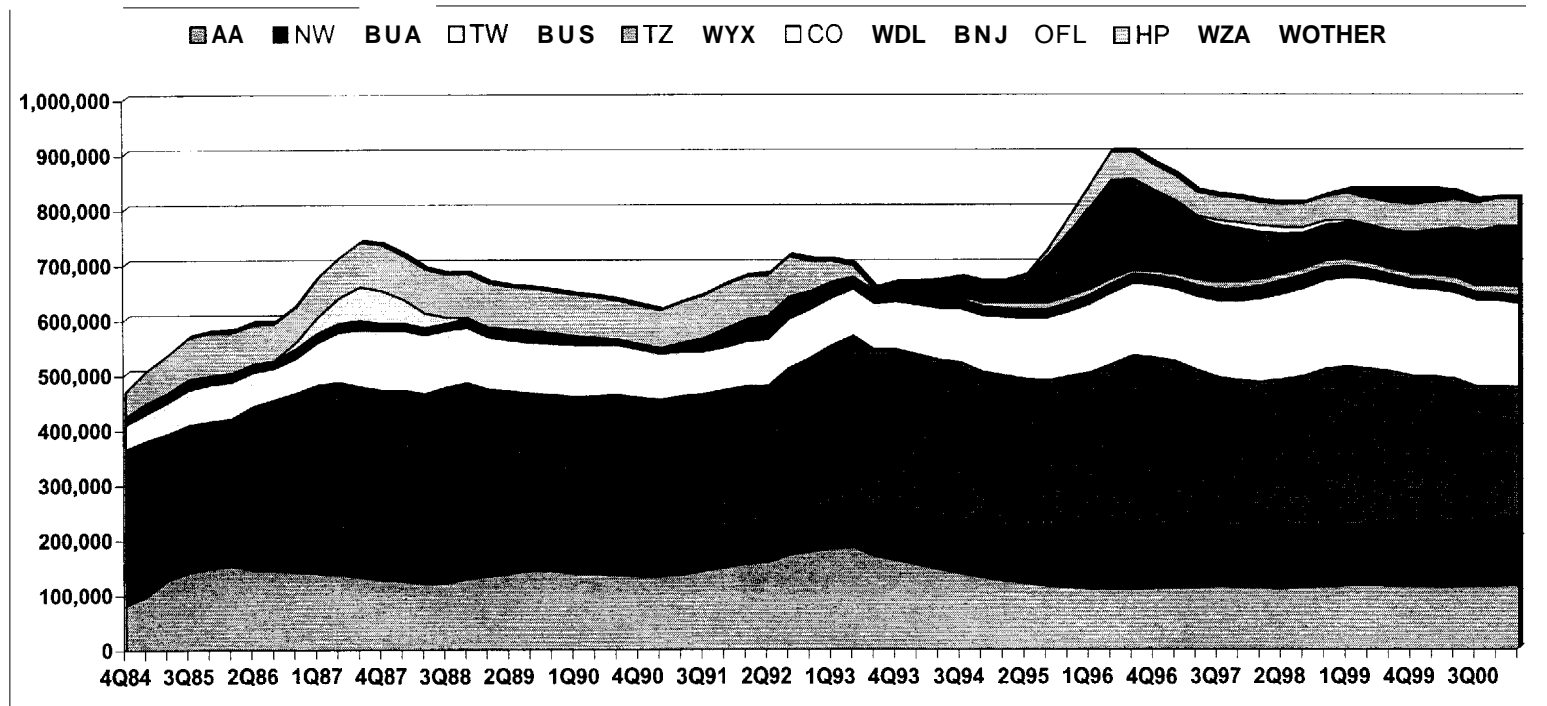
San airport is at a disadvantage when it comes to leisure travelers.

Air fares and availability of competitive prices have increasingly been a source of complaint to airport officials

- Multiple calls from travel agencies regarding air fares
- Many complaints from business leaders and even airport board members
- A major topic of Air Service Task Force meetings
- A well-documented series of exchanges with incumbent carriers
- Pricing "fixes" seem to be short-term at best, and problems continue

Objective 2: Provide a more balanced competitive mix

Des Moines has had a variety of carriers, but no sustained low fare airline



Source: D.O.T. 10% Coupon Sample

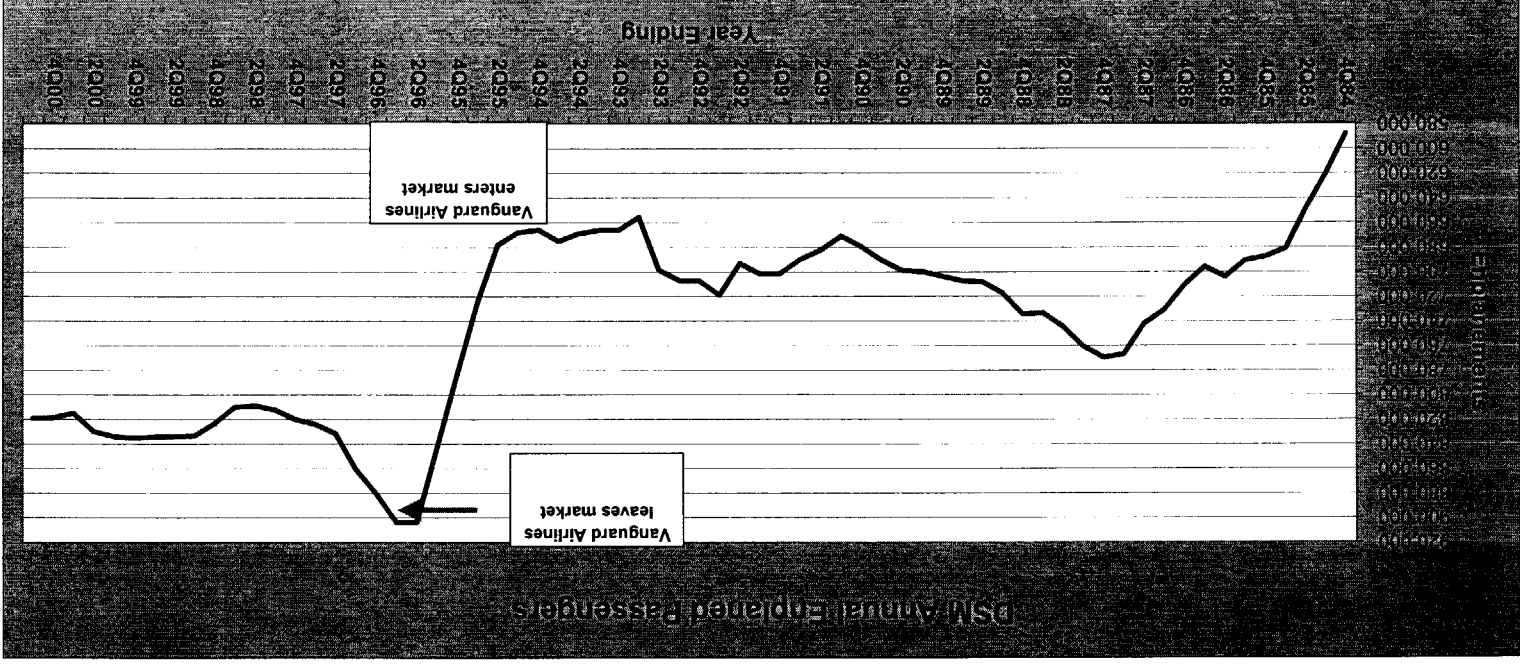
**Des Moines' volume is higher than many State Capitals of similar size;
this speaks to the underlying strength of our market.**

<u>State Capital</u>	<u>MSA (000)</u>	<u>YE2Q01 Enplaned (000)</u>	<u>Enplanedl Capita</u>
Columbia, SC	516.2	2,634	0.51
Baton Rouge, LA	579.2	3,426	0.59
Des Moines, IA	440.3	5,172	1.17
Jackson, MS	434.6	3,693	0.85
Little Rock, AR	560.7	7,909	1.41
Madison, WI	412.8	3,893	0.94
Lansing, MI	<u>450.4</u>	<u>2,032</u>	<u>0.45</u>
Totals	2,943.8	26,726	0.91

Des Moines has been unable to retain low fare carrier service

The low fare carriers that have exited the Des Moines market:

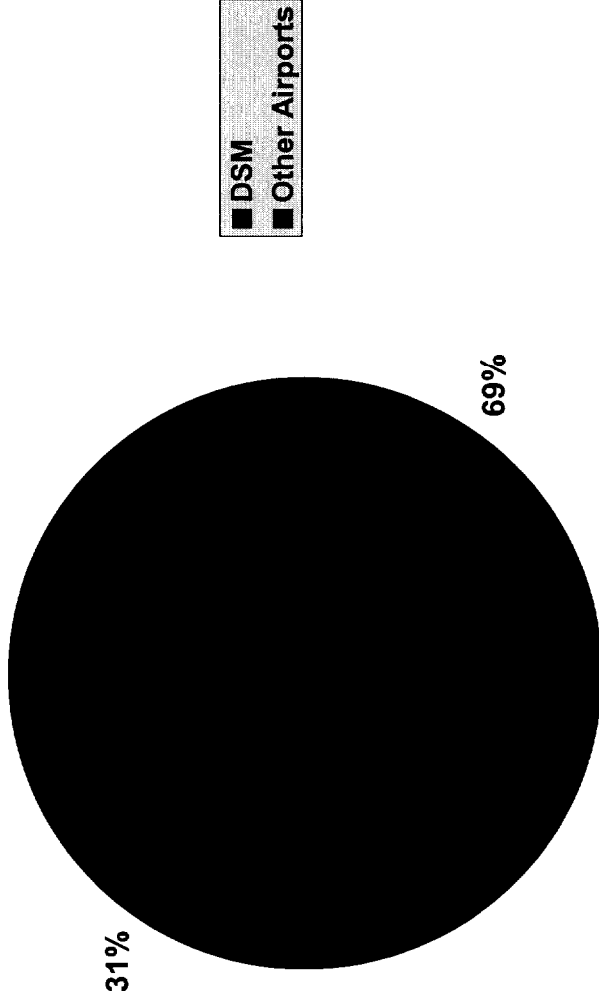
- Vanguard (service to MSP, MDW and MCI)
- AirTran Airways (service to MCO)
- AccessAir (service to LGA, COS and LAX)



Objective 3: Serve our community adequately & stop the leakage of passengers

The airport at DSM only retains 70 percent of its natural traffic

**Airport Usage by Passengers from
the DSM Catchment Area**



The Air Service Task Force develops air service strategy:

Our Air Service Task Force was recently revived


"A group of regional community leaders assembled to revitalize the Air Service Task Force in February of 2002. Their plan was to develop a strategy to respond to the community's need for affordable air service. Past efforts at recruiting and retaining low fare air service have met with varying degrees of initial success, but none have resulted in long-lasting low fare service."

The task force emerged from this meeting with a consensus to work to rally Des Moines's corporate and professional community to support viable and affordable air service."

Ongoing Air Service Development Efforts

Des Moines has had an active program in place, and has had some success in the past.

- The airport has held over a dozen meetings with airline planning officials
- Dozens of discussions and exchanges of data, forecasts, and information about service opportunities
- Des Moines has an active incentive plan which provides relief from operating expenses to carriers when they initiate new service to the market.
- The State of Iowa has played a significant role in helping to support new service initiatives at the Des Moines International Airport.
- The local community sent an extremely strong message in support of low fare service when they invested in a local start up airline, AccessAir. The funding for this jet carrier came mostly from businesses and individuals in Central Iowa and Eastern Illinois.



Even before the tragic events of September 11, we had found that airlines were openly seeking various forms of financial support for new or improved service.

Despite good news regarding Des Moines's economy, employment mix, and overall community trends, we have fallen behind in our ability to aggressively compete with communities that have offered financial support or outright subsidies.

Financial Hurdles

We have done airline cost analyses for potential key services to identify the levels of risk being described by airline executives.

Sample Route: Des Moines - Atlanta

Estimated Trip Costs*

Monthly	\$200,000 plus
Annually	\$2.5 million

*Note: These are summarized for this exhibit; further details and assumptions are available

Clearly, the need for financial support & partnership programs is fast becoming the norm for helping the airlines share the risks of such massive service investments.

Moving Forward - Goals and Agenda

Given the needs of our community, as expressed by business leaders, travel agents, government officials, and individual consumers, we are firmly committed to a plan that addresses the following:


- 1) The need to overcome the dominance of our network carriers and gain access to more competitive services and air fares***
- 2) Improved access to the East Coast***
- 3) Attraction of low fare airline service which is sustainable***

Des Moines's Action Plan

Recognizing the specific benefits of attracting a true low fare airline, our Air Service Task Force is focused on these efforts as a first priority. However, all of the goals listed above are consistent with our plan.

"Target Des Moines"

We have already had discussions with low fare carriers regarding the introduction of new service into the Des Moines market. Specific destinations might include the hubs of Atlanta, Chicago, Denver and the Washington, DC area.



The airport has begun to assemble a public-private partnership to recruit and sustain a low fare carrier in the Des Moines market. These airlines are very aware that they are not safe from the market actions and reactions of their much larger competitors. In order to enter a new market, the low fare airline looks to the community to provide a "safety net" that will protect them from attack by their competitors. Usually this takes the form of some level of revenue guarantee, in conjunction with a pre-paid ticket purchase program to demonstrate advance support for the service. Des Moines intends to do a combination of both.

We will offer a limited amount of money to make up a potential revenue shortfall. In addition, we intend to gain pledges of business travel dollars, amalgamated in a Ticket Trust - our version of the pre-paid ticket purchase program. In all, we intend to raise \$1,125,000 of which we are seeking \$500,000 in federal assistance through the Small Community Air Service Development Program.

Des Moines's Partnership Approach

The airport, in conjunction with the Greater Des Moines Partnership, Polk County, the State of Iowa, and metropolitan area governments, has designed a cooperative and comprehensive private-public partnership through which it intends to attract and sustain a low-fare airline in the Des Moines market. Our goals are to raise:

YEAR ONE

AIR21 Small Community Funds - U.S. DOT	\$500,000
State of Iowa	\$250,000
Metropolitan Area Governments	\$250,000
TOTAL	\$1,000,000

PLUS: Airport Operating Fee waiver of approximately \$100,000, airport advertising/promotion assistance of \$25,000 AND a local pre-paid ticket purchase program whose goal is \$1,000,000 for the first year.

YEAR TWO

State and Local Governments	\$1,000,000
-----------------------------	-------------

PLUS a local pre-paid ticket purchase program whose goal is \$1,000,000 for the second year.

\$500,000 Revenue Guarantee during first 6 months of low fare service

\$100,000 Airport operating fee "credit" during first year

\$25,000 airport advertising to promote the service during first year

Additional \$1,500,000 revenue guarantee for remaining 18 months of program

Airline performance measures to be established ■monitored (on-time, completion, etc.)

Revenue guarantee to be paid only if service fails to reach revenue goals

Des Moines's Implementation plan

Fortunately, the USDOT's official Docket of the Small Community Program states that "we encourage communities and consortiums of communities to consider a wide range of initiatives" and further states that program flexibility is built in by design.

Des Moines's plan is to combine elements of a revenue guarantee with a pre-paid ticket purchase program, i.e. a "Ticket Trust." With local businesses committed to use the service, the public aspect of the partnership should have a good deal more confidence in the ultimate market success of the new service. Our intent is to:

- **Provide direct financial incentives to the airline, including both**
 - Up-front funding for the launch of service
 - Installment-style funding to consistently support the service
- **Cooperative program with already-identified travel agencies and corporate travel departments**
- **Assistance in the offset of operating costs**
- **On-site regional marketing and advertising, including targeted business publication releases**
- **Proactive media campaign and programs**
 - Newspaper & business publications
 - Radio
 - Television (as appropriate)

NOTE: The airport, as the sponsor of this grant application, will be responsible for overall administration of this program. The Des Moines International Airport Board will provide quarterly reports to US DOT regarding the progress of our ACTION PLAN, as well as an accounting of funds used in pursuit of our objectives. We will also advise US DOT as the objectives of the program are achieved. If and when the service becomes self-sufficient, the Des Moines International Airport Board will advise that program funds are no longer needed.

APPENDIX

● OPERATING BUDGETS

FISCAL YEAR BUDGET
Revised 2001/2002
Recommended 2002/2003

PeopleSoft		Final 00/01	Final 01/02	02/03
Account	AVIATION - GRAND TOTAL	Revised Budget	Revised Budget	Recommended Budget
100	Personal Service	4,679,287.00	5,181,645.93	5,484,700.00
200	Transfers to Other Funds	5,016,782.72	4,641,071.00	4,454,992.00
210	Contractual Services	3,371,745.55	5,350,490.01	5,855,199.15
290	Other Charges	815,610.00	953,075.00	948,500.00
300	Commodities	1,119,730.19	1,186,132.50	1,400,800.00
420	Improvements - Building	269,700.00	48,500.00	33,000.00
430	Improvements - Non-building	93,876.35	52,500.00	165,000.00
440	Machinery & Equipment	746,919.87	462,455.00	956,000.00
470	Debt Redemption	564,360.00	1,033,659.00	1,110,309.00
	AVIATION - GRAND TOTAL-OPER.	16,678,011.68	18,909,528.44	20,408,500.15